DUFF & PHELPS
INVESTMENT MANAGEMENT CO.

OUTLOOK

LISTED REAL ASSETS

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The strong stock market rally has surprised many investors and stock market strategists with almost no one calling for the market to get back to positive territory for the year after the March sell down. The combination of strong central bank easing and significant government stimulus has driven economic data off the lows much faster than expectations thereby pushing the market higher.

There are still several clouds out there: the second wave of COVID, the U.S. election and the potential of a Democratic sweep, deteriorating U.S.-China relations. These factors are likely to keep the market in check.

> "Our real asset focus ...is a good place to be for the second half of 2020."

Our real asset focus, particularly global listed real estate and global listed infrastructure, is a good place to be for the second half of 2020.

- Both sectors underperformed in the first half, somewhat uncharacteristically so.
- Both sectors have a majority of sub-sectors that are relatively well-insulated from economic weakness and should enjoy continued earnings growth.
- Both sectors offer attractive dividend yields which should prove enticing in a record-low interest rate environment.
- Finally, the global focus of these two sectors offers diversification away from the more richly-valued U.S. market and insulation from what could be difficult elections in November.

Listed real estate did not display its normal defensive characteristics in the first half as certain traditional sub-sectors, namely retail, lodging, and urban office, were hit especially hard by stay-at-home orders and questions about long-term business models.

The pull-back has left REITs at meaningful discounts to NAV, yet the majority of the market cap within REITs is focused on more attractive sub-sectors including data centers, cell towers, industrial logistics and single family homes.

Global Listed infrastructure offers a great mix of protection and cyclical upside to a recovery. Utilities, which make up half the sector, are not only very insulated from both an economic slowdown and a possible Democratic sweep but also are well-positioned to capitalize on the growth in clean energy.

Meanwhile, both midstream energy and global transportation stocks (toll roads and airports) have been seen sharp pull backs in their stock prices but may experience strong upward stock moves if the global economy continues to accelerate off the bottom.

A final word about real assets. Real assets have typically done well during inflationary periods. Right now, deflation looks to be the greater concern. However, with the extreme central bank easing and government fiscal stimulus, deflation could turn to inflation, which may set the stage for strong real asset outperformance given the significant investment in hard assets, predictable business models, and long-term contracts with annual escalators.

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